

SPECIAL REPORT

AGRICULTURE



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REVISED AND
UPDATED



TO PAY FOR THE HUGE TAX CUT,
THE BUSH BUDGET SHORTCHANGES
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– Revised and Updated Version of Special Report –

On March 26, the House DPC published a report on the Bush agriculture budget – based on the sketchy Bush budget “blueprint” that was released on February 28. This report revises and updates the March 26th report by including the information that was provided by the detailed budget that the Bush Administration finally issued on April 9.

Candidate George Bush campaigned on a promise to “provide a strong safety net” for America’s farm families. Unfortunately, President Bush’s budget does the opposite – i.e., the budget leaves farmers to wonder, in the middle of the fourth year of a farm recession, how their assistance needs will ever be met.

There are numerous reasons why the Bush agriculture budget is bad for America’s farmers, but the two key reasons that the Bush agriculture budget fails farmers are:

- ! Despite the fact that Congress has provided over \$18 billion over the last three years in emergency income assistance to farmers, **the Bush budget sets aside ZERO funding in FY 2002 and over the next 10 years for extra income assistance to farmers.**
- ! In addition, the Bush budget **slashes** discretionary appropriations for the Agriculture Department by \$1.4 billion or 7% below the FY 2001 enacted level.

The fact that the Bush budget has set aside ZERO funding in FY 2002 and future years for extra income assistance for farmers is truly staggering – particularly given the fact that the country is in the midst of the fourth year of a farm recession. As the American Farm Bureau has pointed out:

“Government payments have provided a substantial portion of farm income over the past three years. Cutting those payments would hurt farm income and would begin to undermine the financial balance sheet of the farm sector.”

American Farm Bureau, 2/28/01

And yet the Bush budget dismisses the on-going, three-year emergency support for struggling farmers as “one-time” for “short-term” needs – ignoring the fact that these needs continue to exist.

The Bush budget claims to be based on “cautious estimating assumptions”, but the reality is Bush puts his tax cut ahead of honestly budgeting for desperately needed farm assistance. Farm groups, including the American Farm Bureau and the National Farmers Union, support increasing the USDA budget for FY 2002 by at least \$9 billion to include income assistance. “Delaying this work only harms those producers who are unable to obtain production financing without at least some signal that Congress will approve additional assistance.” *American Farm Bureau, Farm Policy Statement.*

THE RECESSION GEORGE BUSH DOESN'T WANT TO TALK ABOUT

The current farm recession is now in its fourth year and ranks among the deepest since 1915. This includes the agriculture recessions the nation experienced during the Great Depression, World War II, and the 1980's farm financial crisis.

Net cash farm income over the last three years fell, in real dollars, to its lowest point since the Great Depression. Put another way, last year's prices were a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and corn, and an 8-year low for rice. With essentially no improvement in commodity prices over last year, farmers are left with tighter cash flows and serious questions about how they are going to make ends meet.

Farm debt this year will surpass \$180 billion for the first time in 16 years, and farm production costs are expected to increase by \$1.5 billion. The impact of the skyrocketing cost of natural gas is now having an impact throughout the farm sector in the form of higher costs for nitrogen fertilizer and irrigation.

Repercussions are being felt from the Asian economic crisis that began three years ago. In addition, three years of good weather worldwide have created bumper crops all around the globe. This has driven down prices and cut into potential markets for US producers.

Compounding this situation for American producers is the strength of the US dollar, which has contributed to a substantial increase in the relative cost of US commodities overseas.

Despite some progress in lowering trade barriers through the World Trade Organization, the fact remains that the average tariff on US farm products in other countries is 62 percent, while the average US tariff on goods coming into the US is around 12 percent. Additionally, the European Union continues to outspend the US on agriculture, having spent \$47 billion last year alone.

It is precisely these conditions that have led Congress to provide \$18.1 billion in emergency income assistance to farmers over the last three years. These conditions persist – and yet the Bush budget ignores the need for continued assistance.

FARMERS NEED ASSISTANCE NOW -- AND PERMANENT ASSISTANCE OVER THE NEXT 10 YEARS

As was indicated above, although the Bush budget provides ZERO funding for extra income assistance for farmers for FY 2002, farm groups have indicated that they need \$9 billion in this assistance for FY 2002.

Furthermore, farm groups have indicated that they need permanent additional assistance over the next 10 years. Indeed, a broad coalition of commodity and farm groups representing an overwhelming majority of American farmers wrote to Congress earlier this year requesting \$9 billion for FY 2002 and \$12 billion for each year thereafter. The awareness of the need – not just for additional income assistance for farmers in FY 2002 – but also for moving from ad hoc assistance to permanent assistance has been growing in Congress. For example, House Agriculture Chairman Combest and Ranking Member Stenholm wrote a joint letter on March 15th to the House Budget Committee, stating “We recommend that, rather than providing additional assistance on an emergency, ad hoc basis, the budget allocation for agriculture be permanently increased.”

And yet the 10-year budget laid out by President Bush – including a massive tax cut whose true costs well exceed \$2 trillion – **fails to set aside any room for such permanent additional funding for farmers over the next 10 years**. (The Bush Administration has suggested that future agriculture needs can be met through their “contingency” fund, but as will be seen below this contingency fund is empty!)

The reason that permanent assistance for farmers is important – rather than ad hoc assistance – relates to the nature of farming itself. Ad hoc assistance is, by its very nature, unpredictable. Producers and lenders alike are understandably nervous about the inclusion of any dollar figure for ad hoc assistance as they prepare their cash flow calculations for producer financing. The current unpredictability of assistance affects not only producers and lenders, but ripples throughout the rest of the agricultural sector. When farmers and ranchers are unsure about income, they don’t spend money with retailers, input suppliers, equipment manufacturers, or anyone else.

The House Agriculture Committee has already begun the process of developing legislation to provide multi-year additional income assistance in the new Farm Bill. The Agriculture Committee is holding hearings during which commodity and producer groups are making specific recommendations on what Congress can do to bolster the farm safety net. Consideration of this new Farm Bill, however, is completely ignored by the Bush budget.

Fearful and chastened after the farm groups made clear that the Bush budget completely failed to meet the needs of America’s farmers, the Republican-controlled Congress has now rejected the Bush agriculture budget and, with strong support from Democrats, added \$79 billion for agriculture, including income assistance to farmers, over the next 10 years (which is included in the final conference report on the Congressional Budget Resolution adopted by the House on May 9). This action by Congress highlights how the Bush budget was \$79 billion short over the next ten years when it comes to agriculture!

DISCRETIONARY APPROPRIATIONS FOR THE AGRICULTURE DEPARTMENT ARE SLASHED

In addition to including ZERO funding in FY 2002 for additional income assistance to farmers, the Bush budget also cuts important discretionary programs at the Agriculture Department.

Indeed, overall, **the Bush budget slashes discretionary appropriations for the Agriculture Department by \$1.4 billion (or 7%)** -- from \$19.3 billion in FY 2001 to \$17.9 billion in FY 2001. This funding level is \$1.7 billion – or 9% – below the level needed, according to the Congressional Budget Office, to maintain purchasing power at the FY 2001 level.

Examples of some of the cuts in discretionary programs at the Agriculture Department include the following:

- ! Cuts Animal and Plant Health Inspection Service** – The Bush budget cuts the budget for the Animal and Plant Health Inspection Service (APHIS) by \$144 million (or 17%) – from \$866 million in FY 2001 to \$722 million in FY 2002. APHIS monitors the disease status of agricultural plants and animals and controls and eradicates diseases and infestations.
- ! Cuts Cooperative State Research, Education, & Extension Service** – The Bush budget cuts the budget for the Cooperative State Research, Education & Extension Service (CSREES) by \$116 million (or 12%) – from \$987 million in FY 2001 to \$871 million in FY 2002. The CSREES has primary responsibility for providing linkages between the federal and state components of a broad-based, national agricultural research, extension and higher education system.
- ! Cuts Agricultural Research Service** – The Bush budget cuts the budget for the Agricultural Research Service by \$25 million (or 3%) – from \$971 million in FY 2001 to \$946 million in FY 2002. The Agricultural Research Service is a critically important agency that conducts basic and applied research in the fields of animal sciences; plant sciences; entomology; soil, water and air sciences; agricultural engineering; etc.

IN ADDITION, IMPORTANT CONSERVATION PROGRAMS ARE ELIMINATED

Furthermore, in addition to cutting programs at the Agriculture Department funded through discretionary appropriations, the Bush budget also eliminates some of the Agriculture Department's critically-important conservation programs (which are funded by the Commodity Credit Corporation, considered mandatory funding).

These conservation programs are some of the most important programs run by the Agriculture Department and have played an important role in the farm community. For example, conservation programs have greatly decreased soil erosion from wind and water.

These programs are not one-time investments; they are influenced by the weather and must be maintained year after year. This country spends far less today on conservation programs today than we did 50 years ago. And yet consider unmet conservation needs such as these:

- The Wetlands Reserve Program currently has 3,153 applications pending to enroll another 562,000 acres; this is nearly 60 percent more than is currently enrolled.
- The Wildlife Habitat Incentives Program currently has 3,017 applications pending to improve an additional 564,000 acres, over the current 1.4 million acres.

Programs such as these deliver services and benefits that the private sector cannot provide. While the private sector would realize few benefits by carrying out these programs, the public benefits are enormous.

And yet, despite enormous unmet conservation needs, **the Bush budget eliminates these two key conservation programs (!)**, as well as others as follows:

- ! **Eliminates Wetlands Reserve Program.** The Bush budget eliminates the Wetlands Reserve Program in FY 2002, a cut of \$162 million. This voluntary program purchases long-term conservation easements from farmers to protect wetlands – thereby improving water quality and protecting wildlife. The program has been so popular that roughly three-fourths of interested farmers and ranchers have been turned away due to a lack of funding.
- ! **Eliminates Wildlife Habitat Incentives Program.** The Bush budget also eliminates the Wildlife Habitat Incentives Program, a cut of \$12 million. This voluntary program provides cost-sharing for landowners to apply an array of wildlife practices to develop habitat that will support upland wildlife, wetland wildlife, threatened and endangered species, etc.
- ! **Eliminates Other Conservation Programs.** The Bush budget also eliminates other popular and effective conservation programs for agricultural producers, including the Farmland Protection Program, Soil and Water Conservation Assistance, and the Forestry Incentives program.

RURAL DEVELOPMENT PROGRAMS ARE SQUEEZED

Included in the cuts in discretionary appropriations for the Agriculture Department in the Bush budget are significant cuts in rural development programs.

Rural development spending is an example of well-considered public spending in one area that forestalls greater spending in another. The strong economy that our nation has enjoyed these past several years has created improved employment in rural areas, as well as in cities and suburbs. The opportunity for off-farm income is helping many smaller farm families survive, when they might not otherwise do so.

Survey data from 1999 shows that farm households where the primary occupation was

farming, but where sales were less than \$250,000, comprise about 30% of all farms. Off-farm income provided 85 percent of total average household income for farms with sales less than \$100,000. Off-farm income provided 37 percent of total average household income for farms with sales from \$100,000 to \$250,000.

Hence, having a healthy rural economy helps farmers make ends meet – by providing them opportunities for off-farm income. And yet, despite the role that rural development programs play in improving the lives of American farmers, the Bush budget **cuts discretionary appropriations for rural development programs by \$318 million or by 12%** – from \$2.7 billion in FY 2001 to \$2.4 billion in FY 2002 – including cuts in such programs as the Rural Community Advancement Program and the Rural Utilities Service.

BUSH ADMINISTRATION SAYS “CONTINGENCY” FUND WILL MEET FARMERS’ NEEDS – BUT IT TURNS OUT IT’S EMPTY!!!

The Administration has stated that *“we may need to increase spending for our farmers”* and maintains that Bush’s proposed “contingency” fund could be used to help farmers. However, a closer examination reveals that this supposed “contingency” fund is empty!

Specifically, the Bush Administration claims that its budget establishes an \$842 billion “contingency” fund. However, it turns out that \$526 billion – or 62% – of the contingency fund is the Medicare Part A (Hospital Insurance) Trust Fund!! This Trust Fund is already committed under current law to paying Medicare Part A benefits – including benefits related to hospital, skilled nursing home, hospice, and certain home health services.

When the Medicare Trust Fund is removed from the contingency fund, it only leaves a contingency fund of \$316 billion over the next 10 years.

Under the Bush budget, this contingency fund of only \$316 billion over the next 10 years is supposed to meet such high-priority needs as the following:

- ! Additional defense spending;
- ! Additional education spending;
- ! The costs of a prescription drug benefit;
- ! Additional agriculture spending;
- ! Disaster relief;
- ! The costs of Social Security privatization; and
- ! Unexpected emergencies.

However, it turns out that the first item on that list is likely to more than consume the entire \$316 billion contingency fund – i.e., additional defense spending!!! – leaving nothing for any of these other high-priority needs, including agriculture spending.

According to the April 27th USA Today:

“[Defense Secretary Donald Rumsfeld] is expected to seek a large boost in defense spending – \$200 billion-\$300 billion over the next six years, Defense Department sources familiar with his plans say.”

An increase of \$200 billion-\$300 billion over six years in defense spending would translate into an increase of over \$400 billion over 10 years – thereby more than consuming the entire contingency fund!

Hence, it appears more than likely that the contingency fund that the Bush Administration has spent the last five months promising as a source of funding for America’s farmers is EMPTY – once the 10-year defense spending plans are taken into account.

CONCLUSION

In sum, the Bush budget for agriculture fails to meet the needs of American farmers. First, despite the fact that Congress has provided more than \$18 billion over the last three years in emergency income assistance to farmers, the Bush budget sets aside ZERO funding in FY 2002 and future years for extra income assistance to farmers. **In addition, the Bush budget slashes discretionary appropriations for the Agriculture Department by \$1.4 billion or 7% below the FY 2001 enacted level.**